

Message Text

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PAGE 01 ABU DH 00557 130948Z

17

ACTION NEA-09

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AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 EB-07

FPC-01 H-02 INR-07 INT-05 L-02 NSAE-00 NSC-05 OMB-01

PM-03 SAM-01 OES-03 SP-02 SS-15 STR-01 TRSE-00 FRB-03

FEA-01 IO-10 PA-01 PRS-01 USIA-06 /129 W

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R 110945Z MAR 75

FM AMEMBASSY ABU DHABI

TO SECSTATE WASHDC 2696

INFO AMEMBASSY ALGIERS

AMEMBASSY BEIRUT

AMEMBASSY CARACS

AMEMBASSY DOHA

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY TRIPOLI

AMEMBASSY TEHRAN

AMEMBASSY QUITO

AMEMBASSY LONDON

AMEMBASSY PARIS

USMISSION OECD PARIS

C O N F I D E N T I A L ABU DHABI 0557

BEIRUT FOR BAGHDAD

E.O. 11652: GDS

TAGS: ENRG, TC

SUBJ: ABU DHABI OIL DEVELOPMENTS

1. SUMMARY. OPERATING COMPANIES AND GOVERNMENT APPEAR CLOSE TO
REACHING AGREEMENT FOR HIGHER LIFTINGS AT SUBSTANTIALLY REDUCED
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PAGE 02 ABU DH 00557 130948Z

PRICES. IN MEANTIME TWO SIDES ARE AT LOGGERHEADS OVER DEVELOPMENT

PLANS, WITH GOVERNMENT PRESSING COMPANIES TO PROCEED AT ACCELERATED PACE, WHILE COMPANIES ARE RELUCTANT TO PUT UP THEIR SHARE OF CAPITAL FOR THESE PROJECTS UNTIL THEY SEE MORE CLEARLY WHAT THE FUTURE WILL BRING IN TERMS OF BASIC COMPANY/GOVERNMENT RELATIONSHIP. ACCORDING TO AUTHORITATIVE SOURCE SHAIKH ZAYID HAS REACHED FIRM DECISION THAT ABU DHABI WILL NOT FOR SEVERAL YEARS AT LEAST FOLLOW SAUDI ARABIA AND KUWAIT INTO 100 PERCENT OWNERSHIP. WHILE THIS REPORT MAY ACCURDTELY REPRESENT ZAYID'S CURRENT THINKING, IT REMAINS TO BE SEEN IF ABU DHABI CAN HOLD OUT IF 100 PERCENT ARRANGEMENT BECOMES OPEC NORM. END SUMMARY.

2. WHILE ABU DHABI AUTHORITITES MAINTAIN SETTLEMENT HAS BEEN REACHED WITH OIL COMPANIES FOR LOWERING OF PRICES AND RESUMED HIGHER LIFTINGS, MANAGING DIRECTORS OF ADPC AND ADMA HERE HAVE NOT YET BEEN INFORMED OF SUCH A SETTLEMENT, ALTHOUGH THEY BELIEVE TWO SIDES ARE NOW

CLOSE TO AGREEMENT. COMPANIES CONFIRM THAT INFORMATION IN 28 FEBRUARY MEES IS ESSENTIALLY ACCURATE, VIZ, THAT IN ADDITION TO CUT IN SULFUR PREMIUM OF 40 CENTS TWO SIDES TALKING ABOUT CUT IN GRAVITY DIFFERENTIAL OF 3 CENTS/BARREL PER API ABOVE 34 API, WHICH TOGETHER WOULD LOWER SALE AND BUYBACK PRICE FOR MURBAN CRUDE SLIGHTLY MORE THAN 50 CENTS. MINISTER PETROLEUM OTAIBA HAS REPORTEDLY PERSONALLY APPROVED THIS, BUT COMPANIES BELIEVE HE STILL NEEDS ZAYID'S APPROVAL FOR PRICE REDUCTION, AND THAT LATTER NEEDS CONVINCING THIS MOVE WOULD NOT BE ILL-RECEIVED WITHIN OPEC. COMPANIES HERE UNCERTAIN AS TO PRE-CISE LEVEL OF LIFTINGS OWNERS WILL UNDERTAKE IN RETURN FOR THIS PRICE REDUCTION BUT ASSUME BASIS FOR DISCUSSION IS RESTORATION OF PRODUCTION

TO ALLOWABLE ESTABLISHED LAST SEPTEMBER (900,000 B/D FOR ADPC AND 420,000 FOR ADMA). NEGOTIATIONS BEING HANDLED FOR COMPANIES BY BP IN LONDON.

3. IN MEANTIME COMANIES AND ADNOC REMAIN SERIOUSLY AT LOGGERHEADS OVER DEVELOPMENT PLANS. FOR ADPC THIS IS NOT SERIOUS PROBLEM BECAUSE DEVELOPMENT PROGRAM INVOLVES RELATIVELY MINOR CAPITAL INVESTMENT. DISCUSSIONS CENTER ON SPEED WITH WHICH WATER INJECTION SCHEME IS INSTALLED IN EXISTING FIELDS, AND PACE OF DRILLING PROGRAM TO DEVELOP

SEVERAL MINOR FIELDS IN SOUTH AND SOUTHEASTERN PARTS OF ABU DHABI. ADPC TAKES POSITION WITH ADNOC THAT THERE IS LITTLE POINT IN RUSHING

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PAGE 03 ABU DH 00557 130948Z

DEVELOPMENT OF EITHER WATER INJECTION OR NEW OIL FIELDS WHEN PRESENT ADPC PRODUCTION (EVEN IF RAISED TO LAST SEPTEMBER ALLOWABLE) IS STILL FAR BELOW EXISTING ADPC CAPACITY OF 1.3 MBD. WHILE THEY CANNOT HALT DEVELOPMENT PROGRAM ALTOGETHER THEY WOULD LIKE TO STRETCH IT OUT AS MUCH AS POSSIBLE UNTIL COMPANY/GOVERNMENT RELATIONSHIP CLARIFIESONADNOC. ON OTHER HAND, TAKES LINE WITH COMPANIES NOT TO WORRY ABOUT LATTER, JUST

TO GET ON WITH DEVELOPMENT.

4. PERHAPS GREATEST CASUALTY IN ALL OF THIS (FROM POINT OF VIEW OF LONG-TERM DEVELOPMENT OF ABU DHABI RESOURCES) IS STAGNATION OF PLANS FOR ON-SHORE GAS UTILIZATION. GAS RESERVES ON-SHORE ARE VERY CONSIDERABLE AND THEY ARE NOW BEING FLARED OFF AT GREAT RATE. NEGOTIATIONS HAVE CONTINUED IN DESULTORY MANNER BETWEEN ADPC OWNERS AND GOVERNMENT FOR PAST YEAR WITH LITTLE PROGRESS. ASIDE FROM WIDE GAP ON QUESTION OF TAX RATE, AMOUNT OF GAS AVAILABLE TO PLANT WOULD DEPEND ON OIL PRODUCTION LEVEL, AND COMPANIES ARE UNWILLING TO MAKE VERY LARGE CAPITAL INVESTMENT NECESSARY (ESTIMATED COST \$1.2 BILLION) IN PRESENT CONDITIONS OF UNCERTAINTY ABOUT FUNDAMENTAL COMPANY/GOVERNMENT RELATIONSHIP.

5. OFF-SHORE PRODUCER HERE ADMA FEELS MORE ACUTE AND IMMEDIATE PROBLEM WITH RESPECT TO DEVELOPMENT. WHEN TERMS OF OPERATING UNDERWENT RADICAL TRANSFORMATION LAST YEAR ADMA WAS MIDWAY THROUGH COSTLY DEVELOPMENT SCHEME TO RAISE PRODUCTION FIRST TO 800,000 BBLs PER DAY AND SUBSEQUENTLY ABOVE 1 MILLION MARK. COST WAS ON ORDER OF \$1 BILLION OVER 3-4 YEARS. IN MARKED CONTRAST TO THESE HIGH PRODUCTION HOPES PRODUCTION CUT OF ADMA FIELDS LAST TWO MONTHS HAS BEEN AROUND 200,000 B/D. AT THIS PRODUCTION LEVEL, AND AT PRICES ABU DHABI DEMANDING FOR ITS OIL, OWNERS ARE SIMPLY UNWILLING TO CONTINUE CAPITAL OUTLAYS REQUIRED TO PURSUE THIS PROGRAM. ADMA OWNERS (BP AGAIN DOING THE NEGOTIATING) ARE NOW TALKING TO GOVERNMENT ABOUT SPECIAL ASSISTANCE FROM GOVERNMENT THAT WOULD HELP COMPANIES TO RAISE AND INSURE ADEQUATE RETURN ON REQUIRED CAPITAL INVESTMENT.

6. OVER ALL THIS HANGS FURTHER UNCERTAINTY ON QUESTION OF 100 PERCENT PARTICIPATION, NOW AGAIN BROUGHT TO FOREFRONT OF COMPANY CONCERNS BY KUWAIT VOLTE-FACE IN ANNOUNCING THAT IT WILL TAKE THIS STEP. SHAIKH ZAYID'S CHIEF OF CABINET ALI SHURAFI TOLD AMBASSADOR THAT AT OPEC SUMMIT, WHEN AMIR SABAH INFORMED ZAYID OF KUWAITI CONFIDENTIAL

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PAGE 04 ABU DH 00557 130948Z

DECISION, ZAYID REPLIED THAT WHEREAS COMPLETE TAKE-OVER MIGHT BE SUITABLE FOR KUWAIT, HE HAD DECIDED THAT IT WOULD NOT BE IN ABU DHABI'S INTEREST TO TAKE THIS STEP, AND IT WOULD THEREFORE NOT DO SO "FOR AT LEAST SEVERAL YEARS". ACCORDING TO SHURAFI FIRM DECISION HAS BEEN REACHED WITHIN ABU DHABI GOVERNMENT NOT TO FOLLOW OTHERS TO 100 PERCENT OWNERSHIP.

7. WE WILL TRY TO GET MORE DEFINITIVE READING ON THIS FROM FOREIGN AND PETROLEUM MINISTERS WHEN WE CAN SEE THEM. WHILE WE ARE PREPARED TO CREDIT SHURAFI'S ACCOUNT AS ACCURATE RENDERING OF PRESENT ATTITUDE OF SHAIKH ZAHID AND HIS MINISTERS, IT REMAINS TO BE SEEN WHETHER ABU DHABI COULD HOLD OUT WITH PRESENT 60/40 RELATIONSHIP IF OPEC NORM BECOMES ONE OF 100 PERCENT OWNERSHIP, AND PARTICULARLY IF OTHER GULF PRODUCERS GO THIS ROUTE.
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